



Rustenburg Local Municipality  
Financial statements  
for the year ended 30 June 2015

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Index

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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### Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Rustenburg Local Municipality**

Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The financial statements set out on pages 3 to 95, which have been prepared on the going concern basis, were approved by the accounting officer on 31 Augustus 2015 and were signed on its behalf by:

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**Mr MB Khenisa**  
**Municipal Manager**

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand thousand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
Current Assets			
Inventories	12	16 674	20 059
Finance lease receivables	8	75	52
Operating lease asset	9	804	721
Receivables from exchange transactions	13&16	402 800	343 114
Receivables from non-exchange transactions	14&16	59 523	54 433
VAT receivable	15	19 696	3 662
Cash and cash equivalents	17	480 007	425 036
		<b>979 579</b>	<b>847 077</b>
Non-Current Assets			
Investment property	3	314 509	238 726
Property, plant and equipment	4	7 523 706	7 106 699
Intangible assets	5	706	1 241
Heritage assets	6	119	119
Investments	7	881	821
Finance lease receivables	8	2 450	2 524
		<b>7 842 371</b>	<b>7 350 130</b>
<b>Total Assets</b>		<b>8 821 950</b>	<b>8 197 207</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	20	21 712	21 298
Finance lease obligation	18	8 289	7 506
Operating lease liability	9	4	3
Payables from exchange transactions	22	635 814	532 471
Consumer deposits	23	28 160	26 453
Employee benefit obligation	10	4 305	4 336
Unspent conditional grants and receipts	19	434 450	399 028
Provisions	21	15 057	15 184
		<b>1 147 791</b>	<b>1 006 279</b>
Non-Current Liabilities			
Other financial liabilities	20	499 681	265 145
Finance lease obligation	18	6 685	14 973
Employee benefit obligation	10	173 969	166 879
Provisions	21	41 820	38 380
		<b>722 155</b>	<b>485 377</b>
<b>Total Liabilities</b>		<b>1 869 946</b>	<b>1 491 656</b>
<b>Net Assets</b>		<b>6 952 004</b>	<b>6 705 551</b>
Accumulated surplus		6 952 004	6 705 551

\* See Note 46

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

Figures in Rand thousand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	24	2 021 589	1 796 565
Rental of facilities and equipment	25	7 312	6 154
Interest received from trading activities		132 936	112 994
Agency services		16 216	16 568
Licences and permits		10 449	9 813
Other income	26	35 041	28 909
Interest received (other)	27	32 211	31 907
<b>Total revenue from exchange transactions</b>		<b>2 255 754</b>	<b>2 002 910</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	28	264 534	161 957
<b>Transfer revenue</b>			
Government grants & subsidies	30	1 001 789	1 116 300
Fines, Penalties and Forfeits		8 092	37 794
Grant received in kind	3	83 455	-
<b>Total revenue from non-exchange transactions</b>		<b>1 357 870</b>	<b>1 316 051</b>
<b>Total revenue</b>		<b>3 613 624</b>	<b>3 318 961</b>
<b>Expenditure</b>			
Employee related costs	31	(557 652)	(496 597)
Remuneration of councillors	32	(27 593)	(27 238)
Depreciation and amortisation	33	(346 846)	(357 058)
Impairment loss/ Reversal of impairments	34	(306 233)	(391 274)
Finance costs	35	(44 999)	(16 322)
Lease rentals on operating lease		(12 496)	(7 384)
Collection costs		(15 036)	(19 113)
Repairs and maintenance		(107 816)	(160 644)
Bulk purchases	36	(1 515 541)	(1 453 269)
Contracted services	37	(230 609)	(274 526)
Transfers and Subsidies	29	(26 634)	(499)
General Expenses	38	(188 523)	(233 160)
<b>Total expenditure</b>		<b>(3 379 978)</b>	<b>(3 437 084)</b>
<b>Operating surplus (deficit)</b>		<b>233 646</b>	<b>(118 123)</b>
Gain on disposal of assets and liabilities		368	10 460
Fair value adjustments	39	42	57
Actuarial gains/losses	10	12 397	(16 973)
		<b>12 807</b>	<b>(6 456)</b>
<b>Surplus (deficit) for the year</b>		<b>246 453</b>	<b>(124 579)</b>

\* See Note 46

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

Figures in Rand thousand	Accumulated surplus	Total net assets
Opening balance as previously reported	6 855 468	6 855 468
Adjustments		
Correction of errors	(25 338)	(25 338)
<b>Balance at 01 July 2013 as restated*</b>	<b>6 830 130</b>	<b>6 830 130</b>
Changes in net assets		
Surplus (Deficit) for the year - Previously reported	(71 659)	(71 659)
Total changes	(71 659)	(71 659)
Opening balance as previously reported - Restated	6 758 471	6 758 471
Adjustments		
Correction of errors	(52 920)	(52 920)
<b>Restated* Balance at 01 July 2014 as restated*</b>	<b>6 705 551</b>	<b>6 705 551</b>
Changes in net assets		
Surplus for the year	246 453	246 453
Total changes	246 453	246 453
<b>Balance at 30 June 2015</b>	<b>6 952 004</b>	<b>6 952 004</b>

Note(s)

\* See Note 46

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

Figures in Rand thousand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		2 205 221	2 115 534
Grants		1 001 789	1 116 300
Interest income		165 147	144 901
Other receipts		77 111	99 238
		3 449 268	3 475 973
<b>Payments</b>			
Employee costs		(574 842)	(495 410)
Suppliers		(1 897 465)	(2 033 057)
Finance costs		(44 999)	(156 332)
Other payments		(347 843)	(284 100)
		(2 865 149)	(2 968 899)
<b>Net cash flows from operating activities</b>	41	<b>584 119</b>	<b>507 074</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(773 295)	(922 757)
Proceeds from sale of property, plant and equipment	4	17 900	4 219
Proceeds from sale of investment property	3	-	13 130
Purchase of other intangible assets	5	-	(246)
Increase in investments		-	(152)
<b>Net cash flows from investing activities</b>		<b>(755 395)</b>	<b>(905 806)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other financial liabilities		258 000	200 000
Repayment of other financial liabilities		(23 464)	(30 912)
Finance lease payments		(8 289)	-
<b>Net cash flows from financing activities</b>		<b>226 247</b>	<b>169 088</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>54 971</b>	<b>(229 644)</b>
Cash and cash equivalents at the beginning of the year		425 036	654 680
<b>Cash and cash equivalents at the end of the year</b>	17	<b>480 007</b>	<b>425 036</b>

\* See Note 46

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand thousand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	2 521 761	(400 874)	2 120 887	2 021 589	(99 298)	55
Rental of facilities and equipment	15 106	(5 020)	10 086	7 312	(2 774)	
Interest received (trading)	126 771	9 985	136 756	132 936	(3 820)	
Agency services	21 095	8 491	29 586	16 216	(13 370)	55
Licences and permits	12 933	(2 426)	10 507	10 449	(58)	
Other income	36 360	(8 533)	27 827	35 041	7 214	
Interest received - investment	23 860	-	23 860	32 211	8 351	
Gains on disposal of assets	30 000	(29 900)	100	-	(100)	
<b>Total revenue from exchange transactions</b>	<b>2 787 886</b>	<b>(428 277)</b>	<b>2 359 609</b>	<b>2 255 754</b>	<b>(103 855)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	256 484	52 854	309 338	264 534	(44 804)	55
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##### Transfer revenue

Government grants & subsidies	389 947	72 619	462 566	1 001 789	539 223	55
Fines, Penalties and Forfeits	13 382	(1 328)	12 054	8 092	(3 962)	
Donations in kind	-	-	-	83 455	83 455	55

<b>Total revenue from non-exchange transactions</b>	<b>659 813</b>	<b>124 145</b>	<b>783 958</b>	<b>1 357 870</b>	<b>573 912</b>	
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<b>Total revenue</b>	<b>3 447 699</b>	<b>(304 132)</b>	<b>3 143 567</b>	<b>3 613 624</b>	<b>470 057</b>	
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#### Expenditure

Personnel	(481 336)	(36 945)	(518 281)	(557 652)	(39 371)	51 & 55
Remuneration of councillors	(28 766)	1 100	(27 666)	(27 593)	73	
Depreciation and amortisation	(412 545)	66 221	(346 324)	(346 846)	(522)	51&55
Impairment loss/ Reversal of impairments	(338 000)	165 538	(172 462)	(306 233)	(133 771)	51&55
Finance costs	(56 427)	13 322	(43 105)	(44 999)	(1 894)	51
Lease rentals on operating lease	(14 409)	1 890	(12 519)	(12 496)	23	
Collection costs	(23 105)	8 069	(15 036)	(15 036)	-	
Repairs and maintenance	(136 647)	29 551	(107 096)	(107 816)	(720)	51
Bulk purchases	(1 596 599)	81 056	(1 515 543)	(1 515 541)	2	55
Contracted Services	(139 942)	(109 837)	(249 779)	(230 609)	19 170	55
Transfers and Subsidies	(459)	(26 142)	(26 601)	(26 634)	(33)	51&55
General Expenses	(214 086)	21 967	(192 119)	(188 523)	3 596	55
<b>Total expenditure</b>	<b>(3 442 321)</b>	<b>215 790</b>	<b>(3 226 531)</b>	<b>(3 379 978)</b>	<b>(153 447)</b>	

<b>Operating surplus</b>	<b>5 378</b>	<b>(88 342)</b>	<b>(82 964)</b>	<b>233 646</b>	<b>316 610</b>	
Gain on disposal of assets and liabilities	-	-	-	368	368	
Fair value adjustments	-	-	-	42	42	
Actuarial gains/losses	-	-	-	12 397	12 397	56
	-	-	-	<b>12 807</b>	<b>12 807</b>	



## Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
<b>Surplus before taxation</b>	<b>5 378</b>	<b>(88 342)</b>	<b>(82 964)</b>	<b>246 453</b>	<b>329 417</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>5 378</b>	<b>(88 342)</b>	<b>(82 964)</b>	<b>246 453</b>	<b>329 417</b>	

The accounting policies on pages 9 to 37 and the notes on pages 38 to 95 form an integral part of the financial statements.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These financial statements are presented in South African Rand, rounded off to the nearest thousand Rand, which is the municipality's functional currency.

#### 1.2 Going concern assumption

These financial statements have been prepared on a going concern basis.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

#### Trade Receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated based on an assessment of the extent to which trade receivables have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months. This was performed per significant trade receivables first and then for all classes of trade receivables.

#### Allowance for slow moving, damaged and obsolete stock

An allowance / provision to write down stock to the lower of cost or net realisable value is made. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions. Provisions are discounted where the effect of discounting is material using actuarial valuations.

#### Useful lives

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their conditions will be at that time. It is a subjective estimate based on management's experience.

## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### **Post - employment medical benefits**

The cost of post - employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future medical fund contributions increases and mortality rates. Due to the long - term nature of these plans, such estimates are subject to significant uncertainty.

### **1.4 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### **Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

<b>Item</b>	<b>Useful life</b>
Property - land	indefinite
Property - buildings	20 - 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.
- Land held for a currently undetermined future use. (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation).
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality) and a building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.4 Investment property (continued)

The following assets do not fall in the ambit of investment property and shall be classified as property, plant and equipment, inventory or non-current assets held for sale, as appropriate :

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale.
- Property being constructed or developed on behalf of third parties.
- Property that is being constructed or developed for future use as investment property.
- Properties that is leased to another entity under a finance lease.
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income facilities, etc.
- Property held for strategic purposes or service delivery.
- Property being constructed or developed on behalf of third parties.
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment whenever it is possible to reliably differentiate between the different components.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets and commences when an asset is ready for its intended use.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Infrastructure		
Roads	Straight line	30
Paving	Straight line	20
Electricity	Straight line	20 - 30
Water	Straight line	15 - 20
Sewerage	Straight line	20 - 30
Housing	Straight line	30
Buildings	Straight line	30
Other vehicles	Straight line	5
Office equipment	Straight line	7
Computer Equipment & Software	Straight line	5
Specialist vehicles	Straight line	7
Security	Straight line	5
Furniture and fittings	Straight line	7
Bins and containers	Straight line	5
Specialised plant and equipment	Straight line	15
Other items of plant and equipment	Straight line	5
Landfill sites	Straight line	30
Buildings	Straight line	30
Recreational Facilities	Straight line	20 - 30

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

The useful life and residual value of assets are assessed annually to determine the appropriateness of management's initial estimate. If the expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## **Accounting Policies**

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### **1.5 Property, plant and equipment (continued)**

Bulk water assets - Rustenburg Water Services Trust

The Trust maintains and acquires assets to provide a social service to the community, as well as to sell water to the surrounding mines. The useful lives and economic useful lives of these assets are equal. After the loans have been paid up, all assets will revert back to the parent municipality.

The Trust depreciates separately each part of an item of Property, Plant and Equipment that has a cost that is significant in relation to the total cost of the item. Cost of replacing a part is capitalised and the existing parts being replaced are derecognised. The assets were revalued on 30 June 2012 by an independent party. Fair values were determined by obtaining quotations for the different asset types and determining Depreciated Replacement Cost.

### **1.6 Intangible assets**

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<b>Item</b>	<b>Useful life</b>
Licenses and franchises	3 years
Computer software, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.8 Investments

Investments are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.



## Accounting Policies

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### 1.9 Financial instruments (continued)

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Receivables from Exchange Transactions  
Receivables from Non-exchange Transactions  
Cash and Cash Equivalents  
Investment

##### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at fair value  
Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Consumer Deposits  
Payables from Exchange and Non-exchange Transactions  
Long-term Liabilities

##### Category

Financial liability measured at cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

## **Accounting Policies**

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### **1.10 Leases (continued)**

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.11 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

The cost of inventories (consumable stores, raw materials, work-in-progress and finished goods) is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Water is regarded as inventory when the municipality purchase water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water are valued by using the weighted average method, at the lowest of purified cost and net realisable value, in so far as it is stored and controlled in reservoirs at year-end.

### **1.12 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.



## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.13 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## **Accounting Policies**

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### **1.13 Impairment of non-cash-generating assets (continued)**

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## **Accounting Policies**

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### **1.13 Impairment of non-cash-generating assets (continued)**

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.14 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### **1.15 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### **Other post retirement obligations**

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### **1.16 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

## **Accounting Policies**

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### **1.16 Provisions and contingencies (continued)**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgement of the management of the entity, supplemented by the experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this is unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44 to enable users to determine the risk involved.

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A Contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### **1.17 Capital Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of resources/cash.

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.



# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.17 Capital Commitments (continued)

- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

#### Rendering of services

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumptions are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

### 1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Collection charges are recognised when such amounts are legally enforceable (property rates). Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rate revenue already recognised are processed or additional rates revenue is recognised.

## **Accounting Policies**

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### **1.19 Revenue from non-exchange transactions (continued)**

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

The municipality has two types of fines, spot fines and summonses. The municipality recognises the full amount of revenue at the transaction date. Subsequent to initial recognition and measurement, the municipality assesses the collectability of the revenue and recognises an impairment loss.

#### **Government Grants and other grants**

Equitable share allocation is recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential based on the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

When government remit grants on a reimbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

If goods in kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### **1.20 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# Rustenburg Local Municipality

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## Accounting Policies

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### 1.21 Translation of foreign currencies

#### Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### 1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.23 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

## **Accounting Policies**

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### **1.26 Budget information (continued)**

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### **1.27 Related parties**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager

Related party relationships are disclosed regardless if any transactions took place between the parties during the reporting period.

### **1.28 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

2015

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 18: Segment Reporting</li></ul>	01 April 2015	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
<ul style="list-style-type: none"><li>GRAP 20: Related parties</li></ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"><li>IGRAP 11: Consolidation – Special purpose entities</li></ul>	01 April 2015	The impact of the amendment is not material.
<ul style="list-style-type: none"><li>GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements</li></ul>	01 April 2015	The impact of the amendment is not material.
<ul style="list-style-type: none"><li>GRAP32: Service Concession Arrangements: Grantor</li></ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"><li>GRAP108: Statutory Receivables</li></ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"><li>IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset</li></ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"><li>DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP</li></ul>	01 April 2016	The impact of the amendment is not material.

#### 2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 105: Transfers of functions between entities under common control</li></ul>	01 April 2015	Standard is not relevant to date on the municipality
<ul style="list-style-type: none"><li>GRAP 106: Transfers of functions between entities not under common control</li></ul>	01 April 2015	Standard is not relevant to date on the municipality
<ul style="list-style-type: none"><li>GRAP 107: Mergers</li></ul>	01 April 2015	Standard is not relevant to date on the municipality
<ul style="list-style-type: none"><li>IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures</li></ul>	01 April 2015	Standard is not relevant to date on the municipality
<ul style="list-style-type: none"><li>GRAP 7 (as revised 2010): Investments in Associates</li></ul>	01 April 2015	Standard is not relevant to date on the municipality
<ul style="list-style-type: none"><li>GRAP 8 (as revised 2010): Interests in Joint Ventures</li></ul>	01 April 2015	Standard is not relevant to date on the municipality

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

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### 3. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	374 463	(59 954)	314 509	291 008	(52 282)	238 726

#### Reconciliation of investment property - 2015

	Opening balance	Transfers received	Depreciation	Total
Investment property	238 726	83 454	(7 671)	314 509

#### Reconciliation of investment property - 2014

	Opening balance	Disposals	Depreciation	Total
Investment property	258 892	(13 130)	(7 036)	238 726

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposals.



# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

### 4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 077 824	-	1 077 824	1 059 788	-	1 059 788
Buildings	1 315 577	(667 888)	647 689	1 318 918	(570 481)	748 437
Buildings - Work in progress	250 261	-	250 261	207 142	-	207 142
Plant and machinery	47 591	(29 490)	18 101	47 558	(22 875)	24 683
Furniture and fixtures	18 290	(11 848)	6 442	18 147	(10 579)	7 568
Motor vehicles	86 949	(49 979)	36 970	87 178	(42 461)	44 717
Office equipment	54 307	(24 137)	30 170	54 162	(16 004)	38 158
Bins and containers	3 533	(1 522)	2 011	3 533	(1 219)	2 314
Other	2 814	(1 698)	1 116	2 814	(1 367)	1 447
Electrical Equipment	13 464	-	13 464	9 546	-	9 546
Emergency Equipment	3 668	(2 409)	1 259	3 668	(1 669)	1 999
Specialised vehicles	47 864	(23 208)	24 656	44 966	(20 574)	24 392
Infrastructure - Sewerage	801 349	(466 724)	334 625	799 235	(440 684)	358 551
Infrastructure - Electricity	1 120 543	(455 462)	665 081	1 120 543	(413 725)	706 818
Infrastructure - Roads and Transport	3 788 892	(1 905 975)	1 882 917	3 742 791	(1 813 067)	1 929 724
Infrastructure - Water	1 063 578	(652 717)	410 861	1 062 824	(599 782)	463 042
Infrastructure - Work in progress	2 120 259	-	2 120 259	1 478 373	-	1 478 373
<b>Total</b>	<b>11 816 763</b>	<b>(4 293 057)</b>	<b>7 523 706</b>	<b>11 061 186</b>	<b>(3 954 487)</b>	<b>7 106 699</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Work in progress	Depreciation	Impairment loss	Impairment reversal	Total
Land	1 059 788	32 066	(14 030)	-	-	-	-	-	1 077 824
Buildings	748 437	-	(3 338)	-	-	(97 409)	-	-	647 690
Buildings - Work in progress	207 142	43 119	-	-	-	-	-	-	250 261
Plant and machinery	24 683	34	-	-	-	(6 576)	(150)	110	18 101
Furniture and fixtures	7 568	171	(21)	-	-	(1 247)	(134)	106	6 443
Motor vehicles	44 717	-	(90)	-	-	(7 658)	(256)	257	36 970
Office equipment	38 158	232	(47)	-	-	(8 138)	(219)	184	30 170
Bins and containers	2 314	-	-	-	-	(303)	-	-	2 011
Other	1 447	-	-	-	-	(330)	-	-	1 117
Electrical Equipment	9 546	3 918	-	-	-	-	-	-	13 464
Emergency Equipment	1 999	-	-	-	-	(738)	(9)	7	1 259
Specialised vehicles	24 392	2 898	-	-	-	(2 634)	(9)	9	24 656
Infrastructure - Sewerage	358 550	2 115	-	-	-	(26 040)	-	-	334 625
Infrastructure - Electricity	706 819	-	-	-	-	(41 737)	-	-	665 082
Infrastructure - Roads and Transport	1 929 724	46 101	-	-	-	(92 908)	-	-	1 882 917
Infrastructure - Water	463 042	755	-	-	-	(52 935)	-	-	410 862
Infrastructure - Work in progress	1 478 373	683 298	-	(48 971)	7 559	-	-	-	2 120 259
	<b>7 106 699</b>	<b>814 707</b>	<b>(17 526)</b>	<b>(48 971)</b>	<b>7 559</b>	<b>(338 653)</b>	<b>(777)</b>	<b>673</b>	<b>7 523 711</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Work in progress	Depreciation	Impairment loss	Total
Land	1 043 936	16 258	(406)	-	-	-	-	1 059 788
Buildings	844 090	1 694	(139)	-	-	(97 208)	-	748 437
Buildings - Work in progress	81 784	-	-	(1 695)	127 053	-	-	207 142
Plant and machinery	24 162	5 745	(1)	-	-	(5 113)	(110)	24 683
Furniture and fixtures	7 349	1 669	(66)	-	-	(1 278)	(106)	7 568
Motor vehicles	52 097	2 128	(954)	-	-	(8 297)	(257)	44 717
Office equipment	20 061	26 221	(2 533)	-	-	(5 407)	(184)	38 158
Bins and containers	1 817	695	-	-	-	(198)	-	2 314
Other	1 248	397	-	-	-	(198)	-	1 447
Electrical Equipment	9 546	-	-	-	-	-	-	9 546
Emergency Equipment	1 879	360	-	-	-	(232)	(8)	1 999
Specialised vehicles	24 862	2 180	(120)	-	-	(2 521)	(9)	24 392
Infrastructure - Sewerage	349 757	29 391	-	-	-	(20 598)	-	358 550
Infrastructure - Electricity	747 415	2 433	-	-	-	(43 029)	-	706 819
Infrastructure - Roads and Transport	1 987 754	57 299	-	-	-	(115 329)	-	1 929 724
Infrastructure - Water	488 380	24 732	-	-	-	(50 048)	(22)	463 042
Infrastructure - Work in progress	852 176	740 053	-	(113 856)	-	-	-	1 478 373
	<b>6 538 313</b>	<b>911 255</b>	<b>(4 219)</b>	<b>(115 551)</b>	<b>127 053</b>	<b>(349 456)</b>	<b>(696)</b>	<b>7 106 699</b>

#### Depreciation rates

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

2015

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### 5. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 019	(2 313)	706	3 019	(1 778)	1 241

#### Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Impairment loss	Total
Computer software, other	1 241	(521)	(14)	706

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 481	246	(486)	1 241

#### Other information

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance.

All of the municipality's Intangible Assets are held under freehold interest and no intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

### 6. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Jewellery	119	-	119	119	-	119

### 7. Investments

Name of company	% holding 2015	% holding 2014	Carrying amount 2015	Carrying amount 2014
Listed Shares - 13 271 Sanlam Shares	- %	- %	880	820
Unlisted - Investment in Municipal Entities - at cost	100,00 %	100,00 %	1	1
			<b>881</b>	<b>821</b>

#### Detail

Market value of listed investment is 2015: R880, (2014: R820)

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 8. Finance lease receivables

#### Present value of minimum lease payments due

- within one year	75	52
- in second to fifth year inclusive	605	474
- later than five years	1 845	2 050
	<b>2 525</b>	<b>2 576</b>

Non-current assets	2 450	2 524
Current assets	75	52
	<b>2 525</b>	<b>2 576</b>

#### Leasing Arrangements:

A finance lease was granted to the entity (RWST) for sewerage plant transferred by the municipality to the RWST. The lease is repayable over twenty years, in half yearly payments at the end of June and December, with the last instalment due on 30 June 2025. The interest rate implicit in the lease is 11%. All leases are denominated in Rand Currency Unit.

Management of the municipality is of the opinion that the carrying value of Finance Lease Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values.

### 9. Operating lease asset (accrual)

Current assets	804	721
Current liabilities	(4)	(3)
	<b>800</b>	<b>718</b>

Operating leases are recognised on the straight-line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning at year	721	642
Operating Lease Revenue recorded	296	298
Operating Lease Revenue effected	(213)	(219)
Subtotal	804	721
	<b>804</b>	<b>721</b>

Balance at beginning of year	(3)	-
Operating Lease Payable recorded	(54)	(54)
Operating Lease Payable effected	53	51
Subtotal	(4)	(3)
	<b>(4)</b>	<b>(3)</b>

#### Leasing Arrangements

##### The Municipality as Lessor:

Operating Leases relate to Property / Equipment owned by the municipality with lease terms of between 1 to 25 years. With yearly escalation rates of between 5% - 12%.

##### The Municipality as a Lessee

Operating Leases relates to Property leased by the municipality with a lease term of 5 years. With yearly escalation of 5%.

#### Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable / payable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>9. Operating lease asset (accrual) (continued)</b>		
Up to 1 year	145	205
2 to 5 years	610	582
More than 5 years	2 756	2 929
Subtotal	3 511	3 716
	<b>3 511</b>	<b>3 716</b>

### Total Operating Lease Arrangements

The impact of charging the escalations in Operating Leases on a straight-line basis over the lease through the Statement of Financial Performance is a increase in current year income of R82 (2014: R79)

No restrictions have been imposed by the municipality in terms of the operating lease agreements.

Figures in Rand thousand	2015	2014
Up to 1 year	56	53
2 to 5 years	68	124
Subtotal	124	177
	<b>124</b>	<b>177</b>

### Total Operating Lease Arrangements

The impact of charging the escalations in Operating Leases on a straight-line basis over the lease through the Statement of Financial Performance is a increase in current year expenditure of R1 (2014: R3)

No restrictions have been imposed by the municipality in terms of the operating lease agreements.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 10. Employee benefit obligations

#### Defined benefit plan

##### Post-retirement Health Care Benefits Liability

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

##### The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	1 255	1 277
In-service Non-members (Employees)	436	466
Continuation Members (Retirees, widowers and orphans)	124	128
	<b>1 815</b>	<b>1 871</b>

##### The liability in respect of past

In-service Members	106 247	99 706
Continuation Members	58 540	58 199
In-service - Non members	13 487	13 309
	<b>178 274</b>	<b>171 214</b>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

##### The amounts recognised in the statement of financial position are as follows:

##### Carrying value

Present value of the defined benefit obligation unfunded	(178 273)	(171 215)
Non-current liabilities	(173 969)	(166 879)
Current liabilities	(4 305)	(4 336)
	<b>(178 274)</b>	<b>(171 215)</b>

##### Changes in the present value of the defined benefit obligation are as follows:

Opening balance	171 213	139 400
Benefits paid	(4 336)	(3 679)
Net expense recognised in the statement of financial performance	11 394	35 492
	<b>178 271</b>	<b>171 213</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>10. Employee benefit obligations (continued)</b>		
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	9 713	7 447
Interest cost	15 385	12 265
Actuarial (gains) losses	(13 704)	15 780
	<b>11 394</b>	<b>35 492</b>



# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 10. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,02 %	9,10 %
Health Care Cost Inflation Rate	8,09 %	8,28 %
Expected increase in salaries	0,76 %	0,76 %
Net Effective Discount Rate	0,86 %	0,76 %

The basis on which the discount rate has been determined is as follow:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 9.02% per annum has been used. The corresponding index linked yield at this term is 1.81%. These rates do not reflect any adjustment for taxation. These rates were deducted from the JSE Zero Coupon bond yield after the market close on 30 June 2015.

The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed-interest and index-linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

#### Expected Retirement Age

Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
	<b>126</b>	<b>126</b>

History of liabilities (R million)	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015
Accrued liability	124 504	123 116	139 401	171 213	178 271

#### Sensitivity Analysis on Current-service and interest cost for the year ending 30 June 2015

	Current-service cost	Interest cost	Total
Central Assumptions	9 713	15 385	25 098
Health care inflation (+1%)	11 535	17 767	29 302
Health care inflation (-1%)	7 998	13 284	21 282
Discount rate (+1%)	7 876	14 576	22 452
Discount rate (-1%)	12 150	16 242	28 392
Post-retirement mortality (-1 year)	10 055	15 982	26 037
Average retirement age (-1 year)	10 458	16 225	26 683
Continuation of membership at retirement	8 618	14 177	22 795
	-	-	-

#### Sensitivity Analysis on the Accrued Liability - Assumptions & Change

	In-service	Continuation	Total
Central Assumptions	119 733	58 540	178 271
Health care inflation (+1%)	142 650	64 373	207 023
Health care inflation (-1%)	100 341	53 482	153 823
Discount rate (+1%)	98 724	53 562	152 286
Discount rate (-1%)	147 058	64 381	211 440
Post-retirement mortality (-1 years)	123 953	61 009	184 962
Average retirement age (-1 years)	129 681	58 540	188 221
Continuation of membership at retirement (-10%)	105 784	58 540	164 324
	-	-	-

Expected contributions for the year ending 30 June 2016 is R4 305.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 11. Multi-Employer Retirement Benefit Information

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

The Municipal Councillors Fund and the Municipal Gratuity Fund are defined contribution plans. All of these afore-mentioned funds are multi-employer plans. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

#### Municipal Councillors Pension Fund:

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### Municipal Joint Pension Fund:

Municipal Joint Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (7.5%) and Council (22,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### National Fund for Municipal Workers - Pension Fund:

National Fund for Municipal Workers operates as a defined contribution scheme. The contribution rate paid by the members (7.5%) and Council (22,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### Municipal Employees Pension Fund:

The Municipal Employees Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (7.5%) and Council (22,00%) is sufficient to fund the benefits accruing from the fund in the future.

### 12. Inventories

Consumable stores	16 242	19 718
Water	432	341
	<b>16 674</b>	<b>20 059</b>

Inventories recognised as an expense during the year	247 151	222 746
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Consumables stores consists of maintenance materials and spare parts.

### 13. Receivables from exchange transactions

Other debtors	13 308	55 942
Consumer debtors - Electricity	202 300	132 184
Consumer debtors - Water	108 079	62 503
Consumer debtors - Sewerage	16 767	12 724
Consumer debtors - Refuse	18 185	15 469
Consumer debtors - Other	44 161	64 292
	<b>402 800</b>	<b>343 114</b>

#### Fair value of trade and other receivables

Trade and other receivables	402 800	343 114
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# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 13. Receivables from exchange transactions (continued)

#### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 months past due are not considered to be impaired. At 30 June 2015, R 212 048 (2014: R 145 624) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	84 400	44 395
2 months past due	16 856	65 653
+3 months past due and older	110 792	35 576

#### Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R 1 964 252 (2014: R 1 638 689) were impaired and provided for.

The amount of the provision was R 325 563 as of 30 June 2015 (2014: R 413 546)

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	1 638 689	1 225 143
Provision for impairment	325 563	413 546
	<b>1 964 252</b>	<b>1 638 689</b>

### 14. Receivables from non-exchange transactions

Fines	1 998	7 664
Payments made in advance	3 002	3 002
Short-term Loans	3 379	2 790
Sundry Debtors	5 473	3 561
Insurance Claims	404	430
Consumer debtors - Rates	45 267	36 986
	<b>59 523</b>	<b>54 433</b>

The average credit period for Receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus two percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 1 months past due are not considered to be impaired. At 30 June 2015, R 31 499 (2014: R 25 724) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	5 859	4 630
2 months past due	3 704	2 046
+3 months past due and older	21 936	19 048

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 14. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions impaired

The ageing of these is as follows in rates and other receivables:

Current	13 768	11 261
31 - 60 Days	5 859	4 630
61 - 90 Days	3 704	2 046
+ 90 Days	23 934	26 712

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	145 072	114 201
Provision for impairment	31 175	30 871
	<b>176 247</b>	<b>145 072</b>

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Debtor, the municipality considers any change in the credit quality of the Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

Furthermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.

### 15. VAT receivable

VAT	19 696	3 662
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VAT is payable on the receipt basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

Included in the above amount is an amount of R6 407 that relates to adjustments from SARS for which no transaction breakdown was received to indicate the nature and type of the disallowments relating to transactions. This amount is recorded as a reconciling item till reason for disallowment can be investigated.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>16. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	194 220	157 516
Consumer debtors - Electricity	456 370	369 050
Consumer debtors - Water	773 157	599 876
Consumer debtors - Sewerage	178 965	153 208
Consumer debtors - Refuse	220 926	187 423
Consumer debtors - Other	724 328	616 304
	<b>2 547 966</b>	<b>2 083 377</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(148 953)	(120 530)
Consumer debtors - Electricity	(254 070)	(236 866)
Consumer debtors - Water	(665 078)	(537 373)
Consumer debtors - Sewerage	(162 197)	(140 483)
Consumer debtors - Refuse	(202 741)	(171 954)
Consumer debtors - Other	(680 167)	(552 012)
	<b>(2 113 206)</b>	<b>(1 759 218)</b>
<b>Net balance</b>		
Consumer debtors - Rates	45 267	36 986
Consumer debtors - Electricity	202 300	132 184
Consumer debtors - Water	108 079	62 503
Consumer debtors - Sewerage	16 767	12 724
Consumer debtors - Refuse	18 185	15 469
Consumer debtors - Other	44 161	64 292
	<b>434 759</b>	<b>324 158</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	202 300	132 184
Water	108 079	62 503
Sewerage	16 767	12 724
Refuse	18 185	15 469
Other	44 161	64 292
	<b>389 492</b>	<b>287 172</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	45 267	36 986
<b>Net balance</b>	<b>434 759</b>	<b>324 158</b>
<b>Rates</b>		
Current (0 -30 days)	13 768	11 261
31 - 60 days	5 859	4 630
61 - 90 days	3 704	2 046
>91 days	21 936	19 049
	<b>45 267</b>	<b>36 986</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>16. Consumer debtors disclosure (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	131 146	109 136
31 - 60 days	60 976	15 870
61 - 90 days	4 883	5 887
>91 days	5 295	1 291
	<b>202 300</b>	<b>132 184</b>
<b>Water</b>		
Current (0 -30 days)	33 292	21 775
31 - 60 days	12 809	20 688
61 - 90 days	5 097	12 954
>91 days	56 881	7 086
	<b>108 079</b>	<b>62 503</b>
<b>Sewerage</b>		
Current (0 -30 days)	4 702	3 826
31 - 60 days	2 326	2 742
61 - 90 days	1 377	2 006
>91 days	8 362	4 150
	<b>16 767</b>	<b>12 724</b>
<b>Refuse</b>		
Current (0 -30 days)	4 169	5 371
31 - 60 days	2 342	3 589
61 - 90 days	1 577	2 364
>91 days	10 097	4 145
	<b>18 185</b>	<b>15 469</b>
<b>Other</b>		
Current (0 -30 days)	5 296	1 870
31 - 60 days	5 948	1 505
61 - 90 days	3 922	42 442
>91 - days	28 995	18 475
	<b>44 161</b>	<b>64 292</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand 2015 2014

### 16. Consumer debtors disclosure (continued)

#### Summary of debtors by customer classification

##### Households & Other

Current (0 -30 days)	95 095	70 314
31 - 60 days	60 201	55 051
61 - 90 days	43 981	84 746
>91 - days	1 908 992	1 507 989
	2 108 269	1 718 100
Less: Allowance for impairment	(1 947 754)	(1 575 371)
	<b>160 515</b>	<b>142 729</b>

##### Industrial/ commercial

Current (0 -30 days)	151 493	127 780
31 - 60 days	70 496	54 570
61 - 90 days	35 452	8 999
>91 - days	109 945	113 083
	367 386	304 432
Less: Allowance for impairment	(165 453)	(183 847)
	<b>201 933</b>	<b>120 585</b>

##### Government

Current (0 -30 days)	4 076	3 111
31 - 60 days	2 115	2 311
61 - 90 days	1 717	796
>91 - days	64 402	54 624
	<b>72 310</b>	<b>60 842</b>

##### Total debtor past due but not impaired

1 month older	90 260	49 026
2 month older	20 560	67 699
+3 month older and past due	132 727	54 624
	<b>243 547</b>	<b>171 349</b>

### 17. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	13	13
Bank balances	74 669	75 603
Short-term deposits	405 325	349 420
	<b>480 007</b>	<b>425 036</b>

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances and Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 17. Consumer debtors disclosure (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
Primary Bank Account - ABSA - Main Branch Rustenburg - Account number 1220000458	73 178	66 542	64 138	56 116	56 611	33 586
Housing Bank Account - ABSA - Main Branch Rustenburg - 4054617192	18 553	18 992	18 540	18 553	18 992	18 540
<b>Total</b>	<b>91 731</b>	<b>85 534</b>	<b>82 678</b>	<b>74 669</b>	<b>75 603</b>	<b>52 126</b>

Figures in Rand thousand	2015	2014
Absa Call Account	5 401	67 402
First National Bank	-	20 249
Absa	1 239	5 997
Nedbank	113 298	141 138
Standard Bank	184 989	20 249
Kagiso Asset Management	49 302	46 341
Sanlam	50 506	47 454
Absa Guarantee Deposits	590	590
Short term Portion of Investments	405 325	349 420
	<b>405 325</b>	<b>349 420</b>

### Guarantees

Guarantees reflected above in the Notice deposit's of ABSA to the value of R238 and R652 are ceded in favour of third parties as well as the Absa Gaurantee deposit of R590.

### 18. Finance lease obligation

#### Minimum lease payments due

- within one year	8 289	7 506
- in second to fifth year inclusive	6 685	14 973

<b>Present value of minimum lease payments</b>	<b>14 974</b>	<b>22 479</b>
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#### Present value of minimum lease payments due

- within one year	8 289	7 506
- in second to fifth year inclusive	6 685	14 973

	<b>14 974</b>	<b>22 479</b>
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Non-current liabilities	6 685	14 973
Current liabilities	8 289	7 506
	<b>14 974</b>	<b>22 479</b>

Finance Lease Liabilities relates to IT Equipment with lease terms of 36 months. The effective interest rates on Finance Leases is 10%. Capitalised Lease Liabilities are secured over the items of IT equipment leased.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.



# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>19. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
National Government Grants - Department of Water, Agriculture and Forestry (DWAF)	132	-
National Government Grants - Skills Levy	572	572
National Government Grants - Public Transport Infrastructure System Grant (PTIS)	349 047	261 434
National Government Grants - Department Minerals and Energy (DME)	4 894	4 708
National Government Grants - Financial Management Grant (FMG)	13	-
National Government Grants - Municipal Infrastructure Grant (MIG)	39 700	87 232
National Government Grants - Municipal System Improvement Grant (MSIG)	47	-
Provincial Government Grants - Department of Sports, Arts and Culture (DSAC Library)	919	966
Provincial Government Grants - Housing Project Account	19 033	19 033
Provincial Government Grants - Department Sports, Arts and Culture (DSAC)	35	35
Provincial Government Grants - COGTA	2 031	4 929
Provincial Government Grants - Extended Public Works Programme (EPWP)	4 835	5 208
Provincial Government Grants - LG Seta	514	17
Local: BPDm: Cleaning of cemeteries/ LED business plans & other	13	13
Other: Royal Bafokeng: Western By-pass	4 564	4 564
Other: National Lottery	12	12
Other: Seed Funding	422	422
Other	7 544	7 544
Other: EEDG	25	1 955
Other: SP	2	-
Other: Grant Renovation Old Marikana House	7	7
Other: NSCOOP	89	377
	<b>434 450</b>	<b>399 028</b>

See note for reconciliation of grants from National/Provincial Government.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>20. Other financial liabilities</b>		
<b>At amortised cost</b>		
INCA The loan is repayable in equal installments of R4 002 068 at the end of February and August every year, with the final installment payable 29 February 2024. The loan bears interest at 13.82%.	42 368	44 649
ABSA Loan 30-1798-1971 The loan is repayable in installments of R1 447 592 payable at the end of May and November, with the final installment payable 31 May 2020. The loan bears interest at 11.73%.	11 094	12 550
ABSA Loan 30-1798-2317 The loan is repayable in installments of R1 455 506 payable at the end of May and November, with the final installment payable 30/06/2021. The loan bears interest at 11.95%.	12 949	14 188
ABSA Loan 30-2236-2516 The loan is repayable in installments of R1 489 051 payable at the end of May and November, with the final installment payable 30/06/2022. The loan bears interest at 11.95%.	13 880	15 056
DBSA Loan 61007193 The loan is repayable in 6 monthly installments in December and June, with the redemption date of 2 July 2029. The loan bears interest at 9.90%.	292 789	200 000
DBSA Loan 61007264 The loan is repayable in 6 monthly installments in December and June, with the redemption date of 28 June 2030. The loan bears interest at 10.07%.	148 312	-
	<b>521 392</b>	<b>286 443</b>
<b>Total other financial liabilities</b>	<b>521 392</b>	<b>286 443</b>
The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair value.		
<b>Non-current liabilities</b>		
At amortised cost	499 681	265 145
<b>Current liabilities</b>		
At amortised cost	21 712	21 298

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 21. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	28 793	1 196	-	29 989
Long-service Awards	24 770	5 651	(3 533)	26 888
	<b>53 563</b>	<b>6 847</b>	<b>(3 533)</b>	<b>56 877</b>

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Environmental rehabilitation	30 998	326	-	(2 531)	28 793
Long-service Awards	21 621	5 161	(2 012)	-	24 770
	<b>52 619</b>	<b>5 487</b>	<b>(2 012)</b>	<b>(2 531)</b>	<b>53 563</b>
Non-current liabilities				41 820	38 380
Current liabilities				15 057	15 184
				<b>56 877</b>	<b>53 564</b>

#### Environmental rehabilitation provision

In terms of the licencing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R30 997 to restore the site at the end of its useful life, estimated to be between 2015 and 2022 for Rustenburg Townlands landfill site. Provision has been made for the net present value of this cost, using the average cost of borrowig interest rate.

#### Long Service Awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

#### The principal assumptions used for the purposes of the actuarial valuations were as follows for the year ended 30 June 2015:

Discount rate - 8.11%

General salary inflation - 7.12%

Net discount rate - 0.92%

#### The principal assumptions used for the purposes of the actuarial valuations were as follows for the year ended 30 June 2014:

Discount rate - 7.97%

General salary inflation - 7.10%

Net discount rate - 0.80%

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 21. Provisions (continued)

The basis on which the discount rate has been determined is as follow:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 8.11% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index linked yield is 1.4%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2015.

#### The principal assumptions used for the purposes of the actuarial valuations were as follows:

Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
	<b>126</b>	<b>126</b>

#### Movements in the present value of the Defined Benefit Obligation were as follows

Balance at the beginning of the year	24 770	21 621
Current service cost	2 509	2 435
Interest cost	1 835	1 533
Actuarial losses / (gains)	1 307	1 192
Employer Benefit Vestings	(3 534)	(2 011)
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>26 887</b>	<b>24 770</b>

#### The amount recognised in the Statement of Financial Position are as follows:

Present value of unfunded obligations	26 887	24 770
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#### The amount recognised in the Statement of Financial Performance are as follows:

Current service cost	2 509	2 435
Interest cost	1 835	1 533
Actuarial losses / (gains)	1 307	1 192
<b>Total Post-retirement Benefit included in Employee Related Costs</b>	<b>5 651</b>	<b>5 160</b>

History of liabilities	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015
Accrued Liability	14 498	18 462	21 621	24 770	26 887

#### Sensitivity Analysis on Current-service and Interest Costs for the year ending 30 June 2015 - Assumptions & Change

	Current-service cost	Interest cost	Total
General assumptions	2 509	1 835	4 344
General salary inflation (+1%)	2 761	1 976	4 737
General salary inflation (-1%)	2 288	1 709	3 997
Discount rate (+1%)	2 282	1 917	4 199
Discount rate (-1%)	2 773	1 736	4 509
Average retirement age (-2yrs)	2 295	1 641	3 936
Average retirement age (+2 yrs)	2 715	2 026	4 741
Withdrawal rates (-50%)	3 509	2 261	5 770
	-	-	-

#### Sensitivity Analysis on the Unfunded Accrued Liability (in R millions) - Assumptions & Change

	Liability
Central assumptions	26 887
General salary inflation (+1%)	28 910

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>21. Provisions (continued)</b>		
General salary inflation (-1%)		25 075
Discount rate (+1%)		25 008
Discount rate (-1%)		29 025
Average retirement age (-2 yrs)		24 190
Average retirement age (+2 yrs)		29 464
Withdrawal rates		32 949
		-
<b>22. Payables from exchange transactions</b>		
Trade payables	360 782	297 787
Payments received in advanced	72 927	56 727
Accrued leave pay	35 323	29 322
Accrued bonus	13 276	13 260
Unallocated Deposits	65 429	59 427
Other Creditors	25 437	23 705
Retentions	60 370	50 152
Sundry Deposits	2 270	2 091
	<b>635 814</b>	<b>532 471</b>

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payments of its creditors. No terms of payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of creditors approximate their fair values.

### 23. Consumer deposits

Electricity and Water	28 160	26 453
<b>Guarantees</b>		
Guarantees held in lieu of electricity and water	30 514	30 514

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair value.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>24. Service charges</b>		
Sale of electricity	1 511 092	1 435 747
Sale of water	342 034	207 405
Sewerage and sanitation charges	77 278	70 837
Refuse removal	91 185	82 575
	<b>2 021 589</b>	<b>1 796 564</b>

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

### 25. Rental of facilities and equipment

#### Premises

Rental Revenue from Land	1 183	1 997
Rental Revenue from Halls	1 050	1 146
Rental Revenue from Buildings	3 182	1 739
	<b>5 415</b>	<b>4 882</b>

#### Facilities and equipment

Rental Revenue from Amenities	1 161	938
Rental Revenue from Other Facilities	737	333
	<b>1 898</b>	<b>1 271</b>
	<b>7 313</b>	<b>6 153</b>

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

### 26. Other income

Building Plan Fees	951	355
Bank charges recovered	188	203
Application for clearance certificate	829	375
Service connections	3 805	4 962
Reconnection fees	5 554	5 592
Network upgrade contributions	4 093	2 046
Cemetery Fees	975	806
Advertising Signs	1 350	1 620
Legal Cost Recovered	119	97
Maintenance of Private Sidings	-	8
Photocopies	122	103
Tender Documents	1 077	1 205
Town Planning Fees	60	55
Settlement discount	-	110
Surplus cash	13	38
Sundry Income	8 220	11 191
Swimming pool fees	139	143
Stale Cheques	7 546	-
	<b>35 041</b>	<b>28 909</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>27. Investment revenue</b>		
<b>Interest revenue</b>		
Investments	31 840	27 860
Finance leases	282	286
Interest received - other	89	3 761
	<b>32 211</b>	<b>31 907</b>

Revenue recognised in respect of Financial Assets designated as at "fair value" is disclosed in Note 37.

## 28. Property rates

### Rates received

Residential	116 961	71 439
Commercial	122 486	88 787
State	14 737	(463)
Agriculture	10 350	2 194
	<b>264 534</b>	<b>161 957</b>

### Valuations

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2014. Supplementary valuations are processed on a monthly basis to take into account changes to individual property values due to alterations and subdivisions.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

## 29. Grants and subsidies paid

### Other subsidies

Community Projects	492	499
Rustenburg Water Services Trust	26 142	-
	<b>26 634</b>	<b>499</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand 2015 2014

### 30. Government grants and subsidies

#### Operating grants

Equitable share	333 249	284 657
INEG	2 814	7 259
National - Financial Management Grant	1 587	1 655
Provincial - Seta: EPWP training	4 983	3 350
Provincial - Department of Sports, Arts & Culture	-	193
Other: NSCOOP	322	186
Other: Donation School of Excellence	-	143
Provincial - LG Seta	1 423	-
	<b>344 378</b>	<b>297 443</b>

#### Capital grants

National: Municipal Infrastructure Grant (MIG)	213 725	255 867
National: Municipal System Improvement Grant (MSIG)	887	890
National: Public Transport Infrastructure System Grant (PTIS)	432 386	557 703
Grants from private Org - Housing DPLG	2 898	85
Grants from private Org - EEDG	1 930	3 864
Provincial: Renovation old Marikana house	-	448
National: Department of Water, Agriculture and Forestry (DWAF)	4 868	-
Provincial: Department of Sports, Arts and Culture (DSAC Library)	717	-
	<b>657 411</b>	<b>818 857</b>
	<b>1 001 789</b>	<b>1 116 300</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to community members. In terms of the allocation made by DPLG the funds are also utilised to enable the municipality to execute its functions as the local authority.

#### National: DWAF

Current-year receipts	5 000	-
Conditions met - transferred to revenue	(4 868)	-
	<b>132</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 19).

#### National: Skills Levy

Balance unspent at beginning of year	572	-
Current-year receipts	-	572
	<b>572</b>	<b>572</b>

Conditions still to be met - remain liabilities (see note 19).

#### National: Public Transport Infrastructure

Balance unspent at beginning of year	261 434	189 137
Current-year receipts	520 000	630 000
Conditions met - transferred to revenue	(432 387)	(557 703)
	<b>349 047</b>	<b>261 434</b>

Conditions still to be met - remain liabilities (see note 19).



# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 30. Government grants and subsidies (continued)

The grant was received to assist municipalities to create and improve public transport systems in line with the National Land Transport Act (2009) and the Public Transport Strategy. This includes all integrated public transport network infrastructure, such as bus rapid transit systems, conventional bus services and upgrades for pedestrian and cycling infrastructure. It also subsidise the operation of these services.

#### National: Department Minerals and Energy (DME)

Balance unspent at beginning of year	4 708	11 967
Current-year receipts	3 000	-
Conditions met - transferred to revenue	(2 814)	(7 259)
	<b>4 894</b>	<b>4 708</b>

Conditions still to be met - remain liabilities (see note 19).

Expenses were incurred to promote rural development and upgrade electricity infrastructure.

#### National: Financial Management Grant (FMG Grant)

Balance unspent at beginning of year	-	105
Current-year receipts	1 600	1 550
Conditions met - transferred to revenue : Capital Expenses	(1 587)	(1 655)
	<b>13</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 19).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.

#### National: Municipal Infrastructure Grant (MIG Funds)

Balance unspent at beginning of year	87 232	84 377
Current-year receipts	196 593	258 722
Conditions met - transferred to revenue: Capital Expenses	(213 725)	(255 867)
Roll-over not allowed	(30 400)	-
	<b>39 700</b>	<b>87 232</b>

Conditions still to be met - remain liabilities (see note 19).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

#### National: Municipal Systems Improvement Grant (MSIG Funds)

Current-year receipts	934	890
Conditions met - transferred to revenue: Capital Expenses	(887)	(890)
	<b>47</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 19).

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise institutional and governance systems, as required in the Municipal Systems Act (2000) and related legislation.

#### Provincial: Department of Sports, Arts and Culture Grant (DSAC Library)

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>30. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	966	489
Current-year receipts	670	670
Conditions met - transferred to revenue: Operating Expenses	(717)	(193)
	<b>919</b>	<b>966</b>

Conditions still to be met - remain liabilities (see note 19).

The grant was received to transform rural and urban community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through a recapitalised programme at provincial level in support of local government and national initiatives.

### Provincial: Housing Project Account

Balance unspent at beginning of year	19 033	18 572
Current-year receipts	-	461
	<b>19 033</b>	<b>19 033</b>

Conditions still to be met - remain liabilities (see note 19).

### Provincial: Department Sports, Arts and Culture (DSAC)

Balance unspent at beginning of year	35	-
Current-year receipts	-	35
	<b>35</b>	<b>35</b>

Conditions still to be met - remain liabilities (see note 19).

### Provincial: COGTA

Balance unspent at beginning of year	4 929	2 914
Current-year receipts	-	2 100
Conditions met - transferred to revenue: Operating Expenses	(2 898)	(85)
	<b>2 031</b>	<b>4 929</b>

Conditions still to be met - remain liabilities (see note 19).

The grant was utilised for the maintenance of roads in the jurisdiction area of the municipality.

### Provincial: Expanded Public Works Programme Integrated Grant (EPWP)

Balance unspent at beginning of year	5 208	568
Current-year receipts	4 611	7 990
Conditions met - transferred to revenue	(4 984)	-
Other Transfers: Grant debtor	-	(3 350)
	<b>4 835</b>	<b>5 208</b>

Conditions still to be met - remain liabilities (see note 19).

The grant was used to incentivise provincial departments to increase job creation efforts in infrastructure, environment and culture programmes through the use of labour-intensive methods and the expansion of job creation in line with the EPWP guidelines.

### Provincial: LG Seta

Balance unspent at beginning of year	17	17
Current-year receipts	1 920	-

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>30. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(1 423)	-
	<b>514</b>	<b>17</b>
Conditions still to be met - remain liabilities (see note 19).		
This grant was utilised to construct a training centre for pupils of the fire services division.		
<b>Local: BPDM: Cleaning of cemeteries / LED Business Plans and other</b>		
Balance unspent at beginning of year	13	13
Conditions still to be met - remain liabilities (see note 19).		
This grant is received from district municipalities for the cleaning of cemeteries, LED business plans and various other initiatives.		
<b>Other: Royal Bafokeng: Western By-pass</b>		
Balance unspent at beginning of year	4 564	4 564
Conditions still to be met - remain liabilities (see note 19).		
This grant was received with regards to the Western Bypass at the Royal Bafokeng Stadium, in order to ensure that the bypass made the stadium more accessible during the FIFA 2012 Soccer World Cup.		
<b>Other: National Lottery</b>		
Balance unspent at beginning of year	12	12
Conditions still to be met - remain liabilities (see note 19).		
This grant was received from National Lottery for the upgrading and maintaining of hospice facilities.		
<b>Other: Seed Funding</b>		
Balance unspent at beginning of year	422	422
Conditions still to be met - remain liabilities (see note 19).		
This grant was utilised for the maintenance of roads in the jurisdiction area of the municipality. No funds have been withheld.		
<b>Other</b>		
Balance unspent at beginning of year	7 544	7 544
Conditions still to be met - remain liabilities (see note 19).		
Money received from local business in the promoting to various business ventures.		
<b>Other: Energy Efficiency and Demand-Side Management Grant</b>		
Balance unspent at beginning of year	1 955	97
Current-year receipts	-	5 722
Conditions met - transferred to revenue	(1 930)	(3 864)
	<b>25</b>	<b>1 955</b>
Conditions still to be met - remain liabilities (see note 19).		

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 30. Government grants and subsidies (continued)

The grant funds selected municipalities to implement energy-efficiency projects, with a focus on public lighting and energy-efficient municipal infrastructure.

#### Other: Grant Renovation Old Marikana House

Balance unspent at beginning of year	7	-
Current-year receipts	-	455
Conditions met - transferred to revenue	-	(448)
	<b>7</b>	<b>7</b>

Conditions still to be met - remain liabilities (see note 19).

#### Other: NSCOOP

Balance unspent at beginning of year	377	-
Current-year receipts	34	563
Conditions met - transferred to revenue	(322)	(186)
	<b>89</b>	<b>377</b>

Conditions still to be met - remain liabilities (see note 19).

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>31. Employee related costs</b>		
Basic	333 147	301 075
Bonus	22 514	18 764
Medical aid - company contributions	28 634	28 169
UIF	3 103	2 855
WCA	3 433	2 742
SDL	4 071	3 469
Leave pay provision charge	-	8 347
Group Life	245	242
Pension	55 345	48 842
Industrial Council Levy	145	123
Other long-term employee benefits: Long-service awards	811	1 957
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	21 371	15 932
Housing benefits and allowances	1 327	1 238
Overtime payment	29 526	35 225
Other Employee Cost	18 618	2
Defined Benefit Plan Expense	20 763	16 033
	<b>543 053</b>	<b>485 015</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	1 559	638
Contributions to UIF, Medical and Pension Funds	18	-
Accumulated leave payout	-	641
Acting allowances	93	-
	<b>1 670</b>	<b>1 279</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	1 041	928
Car and Other Allowance	180	280
Contributions to UIF, Medical and Pension Funds	273	206
	<b>1 494</b>	<b>1 414</b>
<b>Remuneration of Director: Community Development</b>		
Annual Remuneration	1 165	439
Car and Other Allowance	84	28
Contributions to UIF, Medical and Pension Funds	240	1
	<b>1 489</b>	<b>468</b>
<b>Remuneration of Director: Corporate Services</b>		
Annual Remuneration	1 223	1 145
Car and Other Allowance	-	12
Contributions to UIF, Medical and Pension Funds	140	59
	<b>1 363</b>	<b>1 216</b>
<b>Remuneration of Director: Local Economic Development</b>		
Annual Remuneration	1 178	1 103
Contributions to UIF, Medical and Pension Funds	14	2
	<b>1 192</b>	<b>1 105</b>
<b>Remuneration of Director: Planning and Development</b>		

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand 2015                      2014

### 31. Employee related costs (continued)

Annual Remuneration	966	896
Car and Other Allowance	120	131
Contributions to UIF, Medical and Pension Funds	240	88
	<b>1 326</b>	<b>1 115</b>

#### Remuneration of Director: Infrastructure Development

Annual Remuneration	828	821
Car and Other Allowance	231	170
Contributions to UIF, Medical and Pension Funds	388	225
Acting Allowances	13	-
	<b>1 460</b>	<b>1 216</b>

#### Remuneration of Director: Public Safety

Annual Remuneration	1 094	1 024
Car and other Allowance	84	78
Contributions to UIF, Medical and Pension Funds	309	2
	<b>1 487</b>	<b>1 104</b>

#### Remuneration of Director: Rust Rapid Transport

Annual Remuneration	98	816
Car and Other Allowance	-	165
Contributions to UIF, Medical and Pension Funds	1	181
Acting Allowances	1 198	-
	<b>1 297</b>	<b>1 162</b>

#### Remuneration of Chief Operating Officer

Annual Remuneration	1 478	1 377
Car and Other Allowance	108	123
Contributions to UIF, Medical and Pension Funds	234	2
	<b>1 820</b>	<b>1 502</b>

Total employee related cost	557 652	496 597
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### 32. Remuneration of councillors

Mayor	903	1 541
Speaker	620	685
Executive Committee Members	5 915	5 523
Chief Whip	562	539
Councillors	16 692	16 185
Company Contributions to UIF, Medical and Pension Funds	2 900	2 765
	<b>27 592</b>	<b>27 238</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 33. Depreciation and amortisation

Property, plant and equipment	338 653	349 537
Investment property	7 672	7 036
Intangible assets	521	485
	<b>346 846</b>	<b>357 058</b>

### 34. Impairment of assets

#### Impairments

Property, plant and equipment	778	696
With the assessments of the useful life and inspection of the asset conditions impairments were recognised.		
Intangible assets	14	-
With the assessments of the useful life and inspection of the asset conditions impairments were recognised		
Inventories	1 861	2 850
During the inventory count obsolete stock were identified and provided for.		
Trade and other receivables	337 541	387 729
Recoverability of receivables from exchange transactions were assessed and provision for impairments were identified.		
	<b>340 194</b>	<b>391 275</b>

#### Reversal of impairments

Property, plant and equipment	(673)	-
The BAUD asset management system does not carry over impairment of prior years, resulting that impairment of 2014 was reversed in 2015 and then impairment for new year was assessed again.		
Trade and other receivables	(33 288)	-
Impairment were re-assessed		
	<b>(33 961)</b>	<b>-</b>

<b>Total impairment losses (recognised) reversed</b>	<b>306 233</b>	<b>391 275</b>
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Certain expenses was reclassified to enhance the disclosure in the financial statements.

### 35. Finance costs

Finance leases	1 912	602
Loans and Payables at amortised cost	43 086	15 719
	<b>44 998</b>	<b>16 321</b>

### 36. Bulk purchases

Electricity	1 269 659	1 235 268
Water	245 882	218 001
	<b>1 515 541</b>	<b>1 453 269</b>

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from Rand Water and Magalies Water.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>37. Contracted services</b>		
Professional fees	44 979	77 556
Security Services	18 509	17 352
Valuation Services	1 266	3 562
Other Contractors	165 854	176 056
	<b>230 608</b>	<b>274 526</b>

### 38. General expenses

Advertising	1 337	3 589
Auditors remuneration	6 221	5 702
Bank charges	5 505	8 161
Consumables	1 269	4 745
Donations	150	478
Entertainment	71	563
Legal costs	800	671
Insurance	5 846	3 133
Marketing	1 903	4 918
Contribution for landfill sites	1 196	-
Postage and courier	1 388	2 759
Printing and stationery	11 012	14 250
Subscriptions and membership fees and levies	4 915	4 383
Telephone and fax	7 555	8 516
Transport and freight	36 689	45 303
Travelling Subsistence	5 309	4 830
Assets written off	3 338	1 181
Consumption expenditure	12 943	15 084
License fees	2 405	3 873
Ward committee	4 390	4 105
Printing of license cards	1 809	1 575
AVM Online Vending Service	24 693	14 954
Chemicals	384	952
Other expenses	47 394	79 434
	<b>188 522</b>	<b>233 159</b>

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

Certain general expenditure were re-classified to enhance the disclosure of the financial statements.

### 39. Fair value adjustments

Other financial assets		
• Other financial assets	42	57

### 40. Auditors' remuneration

Fees	6 221	5 702
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# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>41. Cash generated from operations</b>		
Surplus (deficit)	246 453	(124 579)
<b>Adjustments for:</b>		
Depreciation and amortisation	346 846	356 978
Loss on sale of assets and liabilities	(368)	(10 460)
Fair value adjustments	(42)	(57)
Impairment deficit	306 232	391 275
Movements in operating lease assets and accruals	(82)	-
Movements in retirement benefit assets and liabilities	7 059	31 458
Movements in provisions	3 314	(3 033)
Grant received in kind	(83 454)	-
Actuaries gains and losses	12 937	16 973
<b>Changes in working capital:</b>		
Inventories	1 524	976
Receivables from Exchange and non Exchange and other receivables	(385 033)	(230 660)
Payables from Exchange transactions and non exchange and other payables	128 733	78 203
	<b>584 119</b>	<b>507 074</b>

## 42. Financial instruments disclosure

### Categories of financial instruments

#### 2015

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	402 800	402 800
Other receivables from non-exchange transactions	-	59 523	59 523
Cash and cash equivalents	480 007	-	480 007
	<b>480 007</b>	<b>462 323</b>	<b>942 330</b>

##### Financial liabilities

	At amortised cost	Total
Other financial liabilities	521 393	521 393
Trade and other payables from exchange transactions	635 814	635 814
	<b>1 157 207</b>	<b>1 157 207</b>

#### 2014

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	343 114	343 114
Other receivables from non-exchange transactions	-	54 433	54 433
Cash and cash equivalents	425 036	-	425 036
	<b>425 036</b>	<b>397 547</b>	<b>822 583</b>

##### Financial liabilities

	At amortised cost	Total
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# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>. Financial instruments disclosure (continued)</b>		
Other financial liabilities	286 443	286 443
Trade and other payables from exchange transactions	532 471	532 471
	<b>818 914</b>	<b>818 914</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

2015

2014

### . Financial instruments disclosure (continued)

#### Derivative financial instruments and hedging information

##### Other

Fair Value:

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

##### Cash and Short-term Investments

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

##### Long-term Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

##### Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

##### Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

##### Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

##### Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2015, as a result of the short-term maturity of these assets and liabilities.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### . Financial instruments disclosure (continued)

#### Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

##### Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

##### Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

##### Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

### 43. Commitments

#### Commitments in respect of Capital Expenditure

Approved and contracted for:	576 500	1 105 835
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# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>44. Contingencies</b>		
<b>Figures in Rand thousand</b>	<b>2015</b>	<b>2014</b>
Payment dispute over water supply with Government pension fund. Claim against RLM withdrawn by GEPP. Costs tendered to RLM	-	300
Claim for alleged monies owed to Renaissance security. This was claim was made with regards to outstanding payments that the municipality owes for service rendered. Claim has doubtful merits but matter still pending.	-	800
Claim for damages against the G4S Security for loss of an amount of R10 million collected from the vending machine. The other party is prepared to settle the case at the amount of R 400 . The RLM appears not to have a good case because presently there is no evidence to disprove their claims. Numerous requests were made for any proof to the contrary but nothing to date has been provided to the Attorneys thus: still awaiting trial.	-	300
ABSA Trust & Others / RLM. The applicant has now withdrawn the matter and tendered costs. Estimate of costs is to finalise the matter amounts to R15	15	250
Claim for damages in the amount of R50 for wrongful arrest and detention by Tsela Kotela. Parties are still exchanging pleadings.	-	80
Claim for damages by Telkom SA Limited. Parties are still exchanging pleadings.	-	20
Claim by Othusitse Rapoo against RLM Applicant is alleging discrimination of the grounds of victimization . The matter is awaiting date from the court.	123	123
Claim by Othusitse Rapoo against RLM The application is alleging discrimination of the grounds of mental illness. The matter is now awaiting pre-trial conference.	110	110
Claim by Othusitse Rapoo against RLM Review application of the SALGBC's award for dismissal of Application's alleged unfair labour dispute. Heads of agreements are being filed as no reply was received from Applicant.	115	115
Claim by Unit Managers against RLM regarding a dispute over a notch increase. Both parties have exchanged pleadings and the applicants will now have to make arrangements for the pre-trial procedures including the pre-trial conference, indexing and paginating the court file and arranging for the matter to be set down for trial	-	100
Claim by Michael Sibongile Mabena for Vandalism to property (3 Vodacom Public Phones Containers) by Rustenburg Local Municipality (Traffic Officers). We were waiting for the complainant to issue summons if any, against the Municipality.	80	80
Claim by Thomas Alexander Brough and Others against RLM for Demolishing of structures. We were waiting for the complainant to issue summons if any, against the Municipality.	300	150
Claim by HN Engelbrecht against RLM for Damages of watermelons in the amount of R10. We were waiting for the complainant to issue summons if any, against the Municipality.	20	20
Claim for compensation for injuries sustained by Ben Loyd Molapo as a result of severe electric burns when the Plaintiff stepped on a fallen electric cable. Parties are still exchanging pleadings.	200	200
Application for Review of the Council Resolution regarding the removal of all advertising gantries by Lesedi News CC. The other side applied for trial date at the North West High Court, Mahikeng. Date allocated for the 01 August 2014	-	750
Captain Sterling/RLM. Court order to Restrain RLM to interdict the construction of RRT Route at R510 road due to the allegations of the absence of the Water Use Licence as required by the National Water Act. The applicant applied for Rule 35 (to inspect documents referred to in our papers). Matter still pending.	300	300
RLM against Mwenzui Service Station . Notice of motion has been issued and served. The application will be made on 4 June 2015 if the matter is unopposed. The Respondents have filed the notice of intention to oppose. Awaiting date of the hearing of the application.	70	800
KE Enterprises CC / RLM. Interdict against RLM not to release the retention money to Mozadem Civils in respect of Ikemeleng water reticulation project.	200	800
RLM / A Tayob. Eviction order has been granted in favour of (Applicant) RLM. The Respondent (A Tayob) has however filed the application for leave to appeal.	300	300
Urgent Application by RLM against Simon Segone and others to interdict the Respondents from intimidating,	-	300

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>44. Contingencies (continued)</b>		
Unisoft (Pty) Ltd / RLM. Council was informed telephonically by the Plaintiff's attorneys that they are withdrawing as attorney of record. We have not received notice of withdrawal.	200	-
RLM against Shaikh and Shaikh. Claim against the RLM arising out of alleged unlawful destruction of property. Pleading have closed, awaiting trial date.	130	20
TORO YA Afrika / RLM. Claim against RLM for payment of R1,5 million for services of constructing housing development within Rustenburg. Pleading have closed, awaiting trial date.	130	300
RLM against Juanito Damaons NO and another. Application to compel rates and clearance office to issue clearance figures per Section 89, Insolvency Act.	-	310
RLM against Township board. Appeal against application of amendments of Scheme 637. Rezoning of portion 3 and 11 of farm Wagenpadspruit	-	50
RLM against Remainder Portion 1 of Farm. Eviction application to remove vehicles and equipment from farm.	-	200
UMSO Construction / RLM. The Applicant applied for Leave to Appeal and was dismissed. The applicant launched a Petition to the Chief Justice in the Supreme Court of Appeal applying for leave to appeal against the dismissal of their application. SCA has granted the Applicant leave to appeal. Awaiting the hearing for the appeal.	400	-
Munwatch / RLM. Application to compel RLM to furnish the information in terms of the Promotion of Access to information Act 2 of 2000, Parties are still exchanging pleadings.	30	-
Media Dawn/ RLM. RLM defended claim against alleged wrongful award of tender.	10	-
Robigyn (Pty) Ltd / RLM. Declaratory Order to compel the Respondent (RLM) to provide pre-paid meter systems for both electricity and water due to the allegations that the latter is rendering inaccurate and improper invoices to the Applicant.	300	-
Bokaba's Refuse Removal / RLM. Dispute in respect of a claim for cost working days during civil unrest at Lethabong in the amount of R2 336 against the Engineers ruling for the amount of R236.	500	-
Moitse Lebogang / RLM . Demolishing of illegal structure and stopping to operate illegal business activity (Zake's Tavern) t House No. 1927 Mmupudu Street Unit B Tlhabane. Matter postponed to 02 July 2015.	50	-
Nkgweng Mapula / RLM. Demolishing of illegal structure and stopping to operate illegal business activity (Lazi's Tavern) at House No. 1311 Serobebe Street Tlhabane. Matter postponed to 02 July 2015.	50	-
Vinah Mimbiri / RLM. Demolition of illegal structures erected at ERF 82 Marikana Extension 4. Matter is still pending.	25	-
Mambo Julio Michaque / RLM. Demolishing of illegal structure and stopping to operate illegal business activity (Michaque's Tavern) at House No. 1851 Mooka Street, Tlhabane. Matter postponed to 02 July 2015.	50	-
Themba Samuel Mthembu / RLM. Stopping to operate illegal business activity (Tuck Shop) and demolishing of illegal accommodation at ERF 863, Mothuka Street, Tlhabane.	50	-
Sound Life Bible Church / RLM. Demolishing of illegal structure to wit Concrete Precast at Erf.14451 Boitekong Ext.15.	50	-
Salthiel Matsila and Others / RLM. Urgent Interdict and / or restrain the Respondents from threatening and/or interfering with and/or hampering the RLM's officials in their process of allocating RDP Houses to the legitimate and lawful beneficiaries at Monakato. The matter was heard on 15 June 2015 and the Interim Order was granted with the return date on 2 July 2015 for the Respondents to show cause why the Interim Order should not be made final order.	400	-
Unit Managers / RLM. Both Parties have exchanged pleadings and the Applicants will now have to make arrangements for the pre-trial conference, indexing and paginating the court file and arranging for the matter to be set down for. The applicants have thus far not taken any further steps.	100	-
Ehchwawu obo Setlale and 7 others / RLM. Review application against the adverse Arbitration Award of the SALGBC. The Review Application has been served and was filed on the 4 June 2012. Record has been filed, Supplementary affidavit has been filed. Awaiting trial date.	60	-
Various / RLM. Notice of motion issued for 6 cases R10 each. Declaratory order restraining the unauthorised use of property as incorrect establishment.	60	-

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>44. Contingencies (continued)</b>		
Augustinus Thabang Mokoma / RLM. Urgent interdict to cause RLM to restore possession of the keys, licence taken and Rustenburg Trading licence of the vehicle Mercedes Benz Sprinter to the lawful owner. The Respondent filed the opposing papers to show cause why the Interim Order should not be made final. The matter is set for trial on 23 September 2015.	8	-
All the tenants of Plot 35 Waterval, Rustenburg / RLM. Application to cause RLM to restore electricity and water supply at Plot 35 Waterval, Rustenburg. On 17 June 2015, the matter was removed from unopposed rolland has been set for trial on 29 July 2015.	8	-
Leberegane Engineering Services CC / Ingplan Africa (Pty) Ltd / RLM. RLM has appointed the First Applicant for the construction of Apolo lights at various villages. Applicant is sub-contracted to the First Respondent and there is a dispute between the Parties over payment, hence joining of RLM in the application.	40	-
Action against IBD for declaring the sale agreement of land invalid and return of purchase price - High Court - Mafikeng. Application for joinder of Eskom granted and court order.	10 000	10 000
34 Court order cases of collection of arrears owing to RLM against various debtors/customers. Legal proceedings are in various stages of the collection process.	-	598
RLM/ Mdango Vincent and 21 Others. Appeal Court referred matter back to High Court for filing further documents and joinder of Department of Land and Rural Development.	200	-
Various / RLM. 8 Cases of awaiting Sheriff's return of service and Warrant of Execution and Eviction.	125	-
<b>Subtotal</b>	<b>14 809</b>	<b>17 376</b>
	<b>14 809</b>	<b>17 376</b>

### Landfill Sites:

The municipality does not have permits for the following landfill sites:

- Bethanie
- Lethabong
- Marikana
- Monnaka
- Phatsima

The municipality might be fined and penalised for operating unlicensed landfill sites by the Department of Environmental Affairs. However, municipality could not reliably estimate the probable fine that might be incurred as there are no known similar cases against other municipalities.

### Contingent assets

Figures in Rand thousand	2015	2014
Claim to recover the amount of R161 previously paid to the Receiver of Revenue in respect of the initial transfer of the property from the RLM to the MFM Motor Spares. A Power of Attorney was drafted and it was sent to Theron Jordaan & Smit Attorneys in Klerksdorp to do the necessary.	45	45
<b>Subtotal</b>	<b>45</b>	<b>45</b>

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 45. Related parties

#### Relationships

Controlled entities

Refer to note 7

Members of key management and councillors

Refer to note 33 and 34

#### Related party balances

##### Amounts included in Trade receivable (Trade Payable) regarding related parties

Rustenburg Water Services Trust	(28 732)	(31 394)
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#### Related party transactions

##### Interest paid to (received from) related parties

Rustenburg Water Services Trust	(282)	(286)
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##### Purchases from (sales to) related parties

Rustenburg Water Services Trust	89 775	89 170
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##### Transfer payment / Grant & subsidy paid to (received from) related parties

Rustenburg Water Services Trust	26 142	-
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##### Transfer payment / Grant & subsidy (conditions met) by related party

Rustenburg Water Services Trust	(26 142)	-
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The transactions between the Rustenburg Local Municipality and the Rustenburg Water Services Trust is classified as related party transactions. The nature of the relationship is that Rustenburg Local Municipality is the sole beneficiary of the trust and has the right to appoint 4 representatives on the board of trustees.

### 46. Prior period errors

Transactions reflected in this note are rounded to thousands.



# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 46. Prior period errors (continued)

The following Prior period error corrections were done for the 2013 financial year:

All Payables from exchange transactions were not recorded in the correct financial year. The correction resulted in an increase in Payables from exchange transactions of R964 and a increase in expenditure (contract services) of R964.

Errors were identified in the billing of service charges. The correction resulted in Receivables from Exchange transactions to decrease with R46 315 and Service charge income to decrease with R46 315.

Finance leases to the value of R4 251 were settled in the prior year and incorrectly included as Finance lease liabilities. The correction resulted in a decrease in Finance lease liabilities and an increase in Retained Earnings of R4 251.

No accrual for bonuses was raised in the prior year. The correction resulted in Payables from exchange transactions increased with R13 259 and an increase in employee cost of R13 259.

Rand Water refunded the municipality for bulk water purchases overcharged in prior years. The correction resulted in a decrease in Bulk water purchases of R33 362, and increases in VAT payable of R4 628, Interest received of R2 913 increased and Receivables from exchange transactions increased with R40 903.

Various corrections to VAT payable were made to account for Maxprof reports and SARS disallowed and investigation which resulted in a decrease of vat payable of R587 and R31 933 and a increase in retained earnings of R587 and R31 933

The classification of assets were not appropriately considered in prior years as well as the useful lives and residual values were not appropriately considered in prior years resulting in:

Intangible assets cost increase with R287, Intangible asset accumulated depreciation increase with R419 and Retained Earnings decrease with R132.

Plant and Equipment cost increase with R61, Plant and Equipment accumulated depreciation decrease with R3 761 and Retained Earnings increased with R3 823.

Specialised Vehicles cost increase with R92 and Specialised Vehicles accumulated depreciation increased with R64 resulting in a increase in retained earnings of R28.

Accumulated Depreciation on Bins and Containers decrease with R75 and Retained earnings increased with R75.

Cost of Emergency Equipment decrease with R140, accumulated depreciation of Emergency Equipment decreased with R1 187 resulting in a increase in Retained Earnings of R1 047.

Cost of Furniture & Fittings decrease with R4 109, accumulated depreciation of Furniture and Fittings decrease with R3 310 and Retained Earnings decrease with R799.

Cost of Motor Vehicles increased with R1 265, accumulated depreciation Motor Vehicles increased with R33 resulting in a increase in Retained Earnings of R1 231.

Cost of Office Equipment increase with R39 and a decrease in accumulated depreciation Office Equipment R945 with a resulting increase in Retained Earnings of R984.

Accumulated depreciation of other assets decrease with R264 and retained earnings increase with R264.

Various corrections to VAT payable were made to account for Maxprof reports and SARS disallowed and investigation which resulted in a decrease of vat payable of R67 and a increase in service charges of R67.

Other financial liabilities consisted of an amount of R241 that could not be backed by loans as per exception raised by auditors and after investigation, decreased other financial liabilities with R241 and decrease expenditure with R241.

De-recognition of land owned by private individuals included in RLM land resulted in a decrease in Retained Earnings of R14 479 and R929 and a decrease of PPE cost - Land of R14 479 and R929.

Various corrections to VAT payable were made to account for Maxprof reports and SARS disallowed and investigation which resulted in a increase of vat payable of R332 and a decrease in Retained Earnings of R332.

A journal was reversed for which no support could be provided for the reason why it was raised, as indicated in the management report. This incorrect entry reversal resulted in a increase in Receivables from exchange transactions of R21 189 and an increase in Retained Earnings of R21 189.

Correction of VAT control account was made due to prior year split on impairment expenses and VAT and debtors were incorrect resulting in an increase in VAT payable of R56 068 and decrease of retained earnings of R22 780 and a decrease in debtors in credit of R33 289.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 46. Prior period errors (continued)

Duplication of revenue pulled in twice occurred that resulted in a decrease of retained earnings of R790 and a decrease in Receivables from Exchange and non-exchange transactions of R790.

Incorrect accounting of debtors in credit resulted in an incorrect entry that was raised against retained earnings which the correction lead to a decrease in retained earnings of R33 228 and a resulting adjustment in debtors in credit and Receivables from Exchange and non-Exchange transactions.

Write-off of account of which no support could be provided on which no movement occurred for various years with the origin in 2011/2012 year. Resulting in a decrease in payables from exchange transactions of R7 081 and a increase in Other income: write of of creditors.

The following Prior period error corrections were done for the 2014 financial year as reflected below in tables:

Rand water paid back funds relating to bulk water purchases and the reason stated was that they over-charged the municipality in prior years. This resulted in a decrease in the expense bulk water of R10 006, increase in VAT payable of R1 348, increase in interest received of R3 684, with a resulting increase in Receivables from exchange transactions of R15 039.

All Payables from exchange transactions were not recorded in the correct financial year, resulting in an increase in payables from exchange transactions of R9 and an increase in general expenditure of R9.

All Payables from exchange transactions were not recorded in the correct financial year, resulting in an increase in payables from exchange transactions of R4 523 and an increase in expenditure (general) of R1 714, expenditure (contract services) of R1001 and repairs and maintenance of R1 807.

Finance leases identified expenses (payment) was posted incorrectly against the expense account and not the liability resulting in reclassification with an effect that finance leases are decrease with R1 763 and expenditure (general expenditure ) is decrease with R1 763.

Transformers and other property plant and Equipment items were incorrectly classified as inventory. Correction of allocation was made with the effect that Property plant and Equipment - Electrical Equipment increased with R9 546 and Inventory decrease with R9 546.

Inventory impairments were incorrectly not passed through the general ledger resulting in a increase in Inventory impairment of R2 849 and a decrease in Inventory of R2 849.

Investments were adjusted to the correct market values that resulted in an increase in fair value adjustment of R57 and an increase in investment value of R57.

Various corrections to VAT payable were made to account for Maxprof reports and SARS disallowments and investigation which resulted in a decrease of vat payable of R115 and an increase in interest received of R77 and decrease in expenditure (contract services) of R38.

The classification of assets were not appropriately considered in prior years as well as the useful lives and residual values were not appropriately considered in prior years resulting in:

Amortisation of Intangible assets decrease with R41 and accumulated amortisation decreased with R41.

Cost of Plant and Equipment increased with R5 and depreciation on Plant and Equipment decrease with R1 and Retained earnings increase with R4. Additionally impairments increased with R5 and accumulated depreciation on Plant and Equipment increased with R5.

Depreciation on Specialised Vehicles increase with R2 and accumulated depreciation on Specialised Vehicles increase with R2.

Depreciation on Bins and containers decrease with R21 and accumulated depreciation on Bins and containers decrease with R21.

Depreciation on Emergency Equipment decrease with R7 and accumulated depreciation on Emergency Equipment decrease with R7.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 46. Prior period errors (continued)

Depreciation on Furniture and Fittings decreased with R187, accumulated depreciation on furniture and fittings decrease with R187 and impairment on furniture and fittings increase with R47 and cost of Furniture and Fittings increase with R33 and Retained Earnings with R33.

Depreciation on Motor Vehicles increased with R143 and accumulated depreciation on motor vehicles increased with R143.

Depreciation on Other Assets increased with R11 and accumulated depreciation increased with R11.

Cost of Office Furniture increased with R17 448 due to the fact of reassessment of classification and useful life as well as finance leases that was not capitalised as well as a decrease in accumulated depreciation of Office Equipment of R4 325 and an increase in depreciation of Office Equipment of R1 066 and Retained Earnings of R22 839.

Increase in Receivables from exchange transactions of R9 267 and a increase in Revenue from Exchange transactions - Service Charges R9 267, as well as a decrease in Receivables from non-exchange transactions of R14 994 and a decrease in Revenue from non-Exchange transactions - Rates of R14 994.

An operating lease asset that was omitted in prior years were added resulting in a increase in operating lease assets of R1 and a related increase in retained earnings of R1.

Contingent assets decreased with R10 798 and contingent liabilities increased with R10 348 due to findings raised in prior year management report of items not disclosed and incorrectly disclosed.

Irregular Expenditure increased with R1 420 048 due to the fact that Rustenburg Local Municipality undertook an extensive review of irregular expenditure from the period 2010/2011 to date to address the completeness of disclosure of irregular expenditure. In cases where the information for financial years pre-2013-2014 was not available to determine whether all procurement processes were followed such were identified as irregular expenditure and flagged for investigation..

Rustenburg Local Municipality undertook an extensive exercise on commitments to identify the correct value of commitments, This resulted in a increase of commitments disclosed of R45 471.

Reversal of write -off of creditors occurred that was incorrectly made in 2014 that resulted in a increase in trade and other payables of R59 550 and a decrease of other income of R59 550.

With reassessment of Provision of Impairments on Receivables of Exchange and non-exchange transactions due to correction of Receivables adjustments to Impairment provisions were made as well as fact that in 2015 funds were received from debtors that resulted in a adjustment in impairment and impairment expenses. The effect was that Debtors in credit was adjusted with increase of R33 288, Receivables from Exchange with an increase of R52 966 and a decrease occurred on impairment provisions of exchange and non-exchange receivables of R52 042. Net effect was a decrease in impairment of R71 720.

Note 38 of the financial statements of the prior year had various allocation and classification errors that were adjusted. The correction resulted in a net decrease in General expenditure of R11 767 relating to this note.

The correction of the error(s) results in adjustments as follows:

	2014	2013
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# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>46. Prior period errors (continued)</b>		
<b>Statement of financial position - 2014 and 2013 years figures are displayed</b>		
Increase in Payables from Exchange transactions	4 522	964
Decrease in Receivables from Exchange transactions	-	46 315
Decrease in Finance lease	-	4 251
Increase in Retained Earnings - Finance lease	-	4 251
Increase in Bonus Accrual	-	13 259
Decrease in VAT payable	-	587
Increase in Retained Earnings	-	587
Increase in cost PPE - Intangible Asset	-	287
Increase in accumulated depr PPE - Intangible Asset	-	419
Decrease in Retained Earnings	-	132
Increase in cost PPE - Plant & Equipment	-	61
Decrease in accumulated depreciation PPE - Plant & Equipment	-	3 762
Increase in Retained Earnings	-	3 823
Increase in cost PPE - Specialised Vehicles	-	92
Increase in accumulated depreciation PPE - Specialised Vehicles	-	64
Increase in Retained Earnings	-	28
Decrease in accumulated depreciation PPE - Bins and containers	-	75
Increase in Retained Earnings	-	75
Decrease in cost PPE - Emergency Equipment	-	141
Decrease in accumulated depreciation PPE - Emergency Equipment	-	1 187
Increase in Retained Earnings	-	1 046
Decrease in cost PPE - Furniture & Fittings	-	4 110
Decrease in accumulated depreciation PPE - Furniture & Fittings	-	3 310
Decrease in Retained Earnings	-	800
Increase in cost PPE - Motor Vehicles	-	1 264
Increase in accumulated depreciation PPE - Motor Vehicles	-	33
Increase in Retained Earnings	-	1 231
Increase in cost PPE - Office Equipment	-	39
Decrease in accumulated depreciation PPE - Office Equipment	-	945
Increase in Retained Earnings	-	984
Decrease in accumulated depreciation PPE - Other assets	-	264
Increase in Retained Earnings	-	264
Increase in Other receivables from Exchange transactions	15 039	40 903
Increase in VAT payable	1 348	4 628
Increase in payables from Exchange transactions	9	-
Decrease in Finance leases	1 763	-
Increase Receivables from Exchange transactions	-	21 190
Increase in Retained Earnings	-	21 190
Increase in cost PPE - Electrical	9 546	-
Decrease in Inventory	9 546	-
Decrease in Inventory	2 849	-
Increase in Investment	57	-
Decrease in Operating lease asset	3	-
Decrease in VAT payable	115	-
Decrease in accumulated depreciation - Intangible Assets	42	-
Increase in cost PPE - Plant and Equipment	6	-
Increase in accumulated depreciation PPE - Plant and Equipment	5	-
Increase in Retained Earnings	5	-
Increase in accumulated depreciation PPE - Specialised Vehicles	2	-
Decrease in accumulated depreciation PPE - Bins and containers	21	-
Decrease in accumulated depreciation PPE - Emergency Equipment	8	-
Decrease in accumulated depreciation PPE - Furniture & Fittings	19	-
Increase in accumulated depreciation PPE - Furniture & Fittings	47	-
Increase in Retained Earnings	33	-
Increase in cost PPE - Furniture & Fittings	33	-
Increase in accumulated depreciation PPE - Motor Vehicles	144	-
Decrease in accumulated depreciation PPE - Office Equipment	4 325	-
Increase in cost PPE - Office Equipment	17 448	-

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
<b>46. Prior period errors (continued)</b>		
Increase in Retained Earnings	22 839	-
Increase in accumulated depreciation PPE - Other	12	-
Increase in Other Finance liabilities non - current	8 826	-
Decrease in Other Finance liabilities current	8 826	-
Decrease in VAT payable	-	67
Decrease in other financial liabilities	-	241
Decrease in Retained Earnings	-	14 479
Decrease in cost PPE - Land	-	14 479
Decrease in Retained Earnings	-	929
Decrease in cost PPE - Land	-	929
Increase in Receivables from Exchange transactions	9 267	-
Decrease in Receivables from non-exchange transactions	14 994	-
Decrease in Retained Earnings	-	332
Increase in VAT payable	-	332
Increase in operating lease asset	1	-
Increase in Retained Earnings	1	-
Increase in Trade payables	59 550	-
Decrease in Receivables from Exchange transactions	66 588	-
Decrease in VAT payable	-	31 933
Increase in Retained earnings	-	31 933
Decrease in Receivables from Exchange transactions	52 966	-
Increase in Payables from Exchange transactions	33 288	-
Decrease in Impairment provisions Receivables from Exchange and non Exchange	52 042	-
Increase in VAT payable	-	56 068
Decrease in Retained Earnings	-	22 780
Decrease in Receivables in credit	-	33 289
Decrease in Retained Earnings	-	790
Decrease in Receivables from Exchange and non Exchange	-	790
Decrease in Retained Earnings	-	33 228
Decrease in Receivables from Exchange and non-Exchange	-	33 228
Decrease in Payables from Exchange transactions	-	7 081

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 46. Prior period errors (continued)

#### Statement of Financial Performance - 2014 and 2013 years figures are displayed here

Increase in Expenditure: Contracted Services	1 001	964
Decrease in Revenue from Exchange transactions - Service Charges	-	46 315
Increase in Employee Cost	-	13 259
Decrease in bulk water purchase	10 007	33 362
Increase in interest received	3 684	2 913
Increase in Expenditure: General expenses	9	-
Increase in Expenditure: General expenses	1 714	-
Increase in Expenditure: Repairs and Maintenance	1 806	-
Decrease in Expenditure: General expenses	1 763	-
Increase in Impairment : Inventory	2 849	-
Increase Fair value adjustment: Investment	57	-
Decrease in Rental income	3	-
Decrease in Expenditure: Contracted Services	38	-
Increase in Interest Received from SARS	77	-
Decrease in Amortisation - Intangible assets	42	-
Decrease in Depreciation Plant and Equipment	1	-
Increase in Impairment PPE	5	-
Increase in Depreciation Specialised Vehicles	2	-
Decrease in Depreciation Bins and Containers	21	-
Decrease in Depreciation: Emergency Equipment	8	-
Decrease in depreciation PPE - Furniture & fittings	19	-
Increase in impairment PPE	47	-
Increase in Depreciation: Motor Vehicles	144	-
Increase in Depreciation Office Equipment	1 066	-
Increase in Depreciation Other	12	-
Increase in Service Charges	-	87
Decrease in Expenditure: General Expenses	-	241
Increase in Revenue from Exchange transactions - Service Charges	9 267	-
Decrease in Revenue from Non-Exchange transactions - Rates	14 994	-
Decrease in Other income: Write-off of creditors	59 550	-
Decrease in Service Charges	66 588	-
Decrease in impairment from Exchange transactions	52 966	-
Increases in impairment from Exchange transactions	33 288	-
Decrease in impairment Exchange and non Exchange Receivables	52 042	-
Increase in Other income: Write off of creditors	-	7 081

#### Notes to the financial statements

Contingent liabilities increased	10 348	-
Contingent assets decreased	10 798	-
Increased in Irregular expenditure	1 427 711	-
Increase in commitments	45 471	-
	<b>1 494 328</b>	<b>-</b>

#### Changes to Statement of Financial performance - 2014 financial year due to incorrect classification of expenditure

Errors and Cassification Errors in Note 38. Net differences indicated indicated a decrease of	11 737	-
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### 47. Comparative figures

The comparative figures were restated as a result of the effect of Prior Period Errors. Refer to note.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand	2015	2014
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### 48. Risk management

#### Financial risk management

##### Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 7, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 16 and the Statement of Changes in Net Assets.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

##### Gearing Ratio's

The gearing ratio at the year-end was as follows:

Debt	(521 393)	(286 443)
Cash and Cash Equivalents	480 007	425 036
Net Debt	(41 386)	138 593
	<b>(41 386)</b>	<b>138 593</b>

Debt is defined as Long- and Short-term Liabilities

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

#### Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Finance department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand thousand

2015

2014

### 48. Risk management (continued)

The Department of Finance monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

### Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- ' - Credit Risk;
- ' - Liquidity Risk; and
- ' - Market Risk.

Risks and exposures are disclosed as follows:

### Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

### Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

### Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.



# Rustenburg Local Municipality

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### 48. Risk management (continued)

#### Credit risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term receivables, other debtors, bank and cash balances.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

#### Investments/Bank, Cash and Cash Equivalents

Refer to <http://www.fidfund.co.za/banking-options/bank-credit-ratings/> for the most updated ratings.

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

#### Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on-going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

Trade Receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas within the jurisdiction of the municipality. On-going credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

# Rustenburg Local Municipality

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### 48. Risk management (continued)

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Finance Lease Receivables	2 525	2 576
Receivables from exchange transactions	402 800	343 114
Receivables from non-exchange transactions	59 523	54 433
Cash and cash equivalents	480 007	425 036

### Market risk

#### Detail

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

- interest rate swaps to mitigate the risk of rising interest rates.

Market risk exposures are measured using value-at-risk (VaR) and are supplemented by sensitivity analysis.

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

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### 48. Risk management (continued)

#### Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial Assets and Liabilities that are sensitive to interest rate risk are cash and cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, other debtors, bank and cash balances.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

#### Foreign exchange risk

The municipality undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

#### Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

### 49. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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Financial Statements for the year ended 30 June 2015

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### 50. Events after the reporting date

No material events occurred with respect to the 2015/2016 financial year end after the date of the statement of financial position in respect of loans, investments and any other aspects.

### 51. Unauthorised expenditure

Opening balance	1 115 102	1 063 936
Unauthorised Expenditure current year	176 311	51 166
Condoned during the financial year	-	-
	<b>1 291 413</b>	<b>1 115 102</b>

Unauthorised expenditure for the current year relates to the following expenditure categories:

Employee Related Costs	39 371	29 393
General Expenses	-	21 217
Impairment	133 771	499
Remuneration of Councillors	-	57
Finance Cost	1 894	-
Repairs and maintenance	720	-
Transfers and subsidies	33	-
Depreciation	522	-
	<b>176 311</b>	<b>51 166</b>

### 52. Fruitless and wasteful expenditure

Opening Balance	-	-
Expenditure incurred during the year	537	-
Written off / recovered during the financial year	-	-
	<b>537</b>	<b>-</b>

Expenditure incurred during the year resulted from interest paid on late payments of suppliers to the value of R112, and court orders paid due to non-compliance to the value of R424. The matters is currently under investigation, no disciplinary steps taken to date.

### 53. Irregular expenditure

Opening balance	1 666 150	1 195 711
Irregular expenditure current year	480 502	470 439
Condoned during the financial year	-	-
Written off/ recovered during the financial year	-	-
	<b>2 146 652</b>	<b>1 666 150</b>

# Rustenburg Local Municipality

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### 53. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

	Status of investigation and disciplinary hearings	
Irregular expenditure in terms of Treasury regulations	1287 Cases are being investigated, no disciplinary hearings have been under taken.	407 370
Contract expired and continued Contract expired and continued with service	17 Cases are being investigated, no disciplinary hearings have been under taken.	51 040
Final contract payments exceeded the original contract value	29 Cases are being investigated, no disciplinary hearings have been under taken. (Limited to capital projects, which includes expired capital contracts)	22 092
		<b>480 502</b>

Rustenburg Local Municipality undertook an extensive review of irregular expenditure from the period 2010/2011 to date to address the completeness of disclosure of irregular expenditure. In cases where the information for financial years pre-2013-2014 was not available to determine whether all procurement processes were followed such were identified as irregular expenditure and flagged for investigation.

#### Details of irregular expenditure - prior year

	Status of investigation and disciplinary hearings	
Irregular expenditure in terms of Treasury regulations	1287 Cases are being investigated, no disciplinary hearings have been under taken.	397 707
Contract expired and continued Contract expired and continued with service	13 Cases are being investigated, no disciplinary hearings have been under taken.	69 425
Final contract payments exceeded the original contract value	12 Cases are being investigated, no disciplinary hearings have been under taken. (Limited to capital projects, which includes expired capital contracts)	3 307
		<b>470 439</b>

Rustenburg Local Municipality undertook an extensive review of irregular expenditure from the period 2010/2011 to date to address the completeness of disclosure of irregular expenditure. In cases where the information for financial years pre-2013-2014 was not available to determine whether all procurement processes were followed such were identified as irregular expenditure and flagged for investigation.

### 54. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year expense	4 904	4 340
Amount paid	(4 904)	(4 340)
	-	-

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 54. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity and Water losses were as follows and are not recoverable:

Electricity	Units (kWh)	Units (kWh)
Purchased during the year	1 921 991	2 001 962
Sold during the year	(1 823 161)	(1 837 816)
Unaccounted - Normal distribution losses - % of electricity (2015 - 5,14%); (2014 - 8%)	98 830	164 146
<b>Loss (R): At Cost</b>	<b>65 287</b>	<b>101 283</b>

Electricity losses occur due to inter alia, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an on-going process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Water	Units (kl)	Units (kl)
Purchased during the year	41 969	42 877
Sold during the year	(22 225)	(18 832)
Unaccounted - Normal distribution losses - % of water (2015 - 47,05%);(2014 - 56%)	19 744	24 045
<b>Loss (R): At Cost</b>	<b>109 521</b>	<b>129 065</b>

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an on-going process, with regular action being taken against defaulters. Faulty meters and leakages are replaced / repaired as soon as they are reported.

#### Audit fees

Opening balance	460	-
Current year expense	6 221	5 703
Amount paid	(6 629)	(5 242)
	<b>52</b>	<b>461</b>

#### PAYE and UIF

Current year expense	3 118	2 942
Amount paid	(3 118)	(2 942)
	-	-

#### Pension and Medical Aid Deductions

Current year expense	88 604	80 318
Amount paid	(88 604)	(80 318)
	-	-

# Rustenburg Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 54. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Clr Bisschoff IJ	2	-	2
Clr Breytenbach A	1	-	1
Clr Coetzee DL	4	3	7
Clr Coetzee MJ	1	-	1
Clr Du Plessis GJ	1	-	1
Clr Damoyi M	3	55	58
Clr Khunou ME	3	-	3
Clr Letshole MG	12	104	116
Clr Mathudi RM	22	101	123
Clr Masilo QS	1	2	3
Clr Mataboge AL	4	-	4
Clr Miny CFM	1	-	1
Clr Mokopo LE	3	55	58
Clr Mhlungu SBM	1	-	1
Clr Molotsi KS	3	39	42
Clr Mokowe LJ & NE	1	-	1
Clr Mosome JL	5	65	70
Clr Motlhasedi RK	-	19	19
Clr Motshegwe SM	2	2	4
Clr Mputle GJ	1	-	1
Clr Mtyotywa EB	7	78	85
Clr Mutle MG	5	51	56
Clr Mzizi J	2	30	32
Clr Omarjee M	1	-	1
Clr Poopedi JM	-	48	48
Clr Segale M	2	32	34
Clr Segaole CG & DR	2	4	6
Clr Segaole AB	3	-	3
Clr Sepotokele M	-	1	1
Clr Sithole EE	5	75	80
Clr Serongoane NJ	3	16	19
Clr Smith LJ	1	-	1
Clr Tsamai A	1	-	1
Clr Vosloo JM	6	-	6
Clr Vosloo EE & M	3	1	4
	<b>112</b>	<b>781</b>	<b>893</b>

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Clr Bothomane P	2	108	110
Clr Coetzee D	1	15	16
Clr Dlunge W	1	49	50
Clr Du Plessis GJ	3	-	3
Clr Lombaard A	2	-	2
Clr Makopo T	-	50	50
Clr Malan A	1	-	1
Clr Mashishi-Ntsimeji	-	5	5
Clr Masilo QS	-	1	1

# Rustenburg Local Municipality

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Figures in Rand thousand		2015	2014
<b>54. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>			
Clr Mmolotsi CN	1	35	36
Clr Mokowe NE	-	5	5
Clr Molatlhegi PR	1	72	73
Clr Mosome PD	1	67	68
Clr Motlhasedi RK	-	19	19
Clr Motshegwe SM	-	1	1
Clr Mtyotywaelane B	1	83	84
Clr Mzizi J	-	24	24
Clr Poopedi JM	-	45	45
Clr Segale M	-	29	29
Clr Segale B	1	2	3
Clr Sepotokele M	-	2	2
Clr Serongoane PH	-	6	6
Clr Tlhapi PP	1	102	103
Clr Tsamai Agnes	1	-	1
Clr Vosloo JM	-	1	1
Clr Vosloo JM	-	1	1
Clr Vosloo	1	3	4
Clr Willemse M	1	76	77
	<b>19</b>	<b>801</b>	<b>820</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

### 55. Budget differences

#### Material differences between budget and actual amounts

Services Charges, Property rates - The reduction of budgeted revenue relates to the weak economic climate, including the effect of load shedding and the drive from customers to utilise alternative energy sources.

Agency services - The reduction of budgeted agency fees are directly linked to the utilisation of municipal facilities to receive payment of licences and other related fees on behalf of the traffic department.

Government grants and subsidies - Increase in the government grants and subsidies relates to unspent conditional grants recognised during the year for projects completed.

Donation in kind - Property received from the Department of Human settlement that was not originally budgeted for.

Personnel - Increase expenditure relates to additional staff being appointed, including other employee related expenditure, increases such as employee benefits not budgeted for during the financial year.

Impairment losses - Increase is due to a revised assessment of receivables and inventory impairment provisions.

Depreciation and amortisation - Increase due to revised assessment of useful life and residual values.

Transfers and subsidies - Donation exceeded council approval..

Finance cost - Overspending relates to recognition of interest on finance leases which form part of the general expenses budget.

Repairs and maintenance - Accrued invoices not budgeted for.